

Message Text

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ACTION SS-25

INFO OCT-01 ADP-00 /026 W

----- 057998

R 261010Z AUG 73

FM AMEMBASSY JIDDA

TO SECSTATE WASHDC 4745

INFO AMEMBASSY DHAHRAN

S E C R E T SECTION 1 OF 2 JIDDA 3644

EXDIS

E.O. 11652: GDS

TAGS: ENRG, SA

SUBJ: SAUDI GOVT OIL POLICY AND RELATED FINANCIAL ASPECTS

REF: STATE 167505

SUMMARY: AMBASSADOR PRESENTED PRINCE FAHD COPY OF OUR C-20 PAPER RE ARAB FINANCIAL RESERVES EXPLAINING IT INTENDED MAKE CLEAR OUR CONVICTION FREEDOM OF ACTION OIL PRODUCING STATES MUST BE PRESERVED WITH REGARD INVESTMENT THEIR ACCUMULATED FUNDS WITHOUT ENCUMBRANCE BY RESTRICTIONS OF ANY NEW MONETARY SYSTEM. AMB PRESENTED MESSAGE FROM SECRETARY TO FAHD NOTING IT ALSO ADDRESSED THIS ASPECT, AND THAT IT URGED IN ADDITION OUR STRONG HOPE CAREFUL CONSIDERATION WOULD BE GIVEN TO SAUDI ARABIA'S IMPORTANT ROLE IN MEETING RAPIDLY RISING PETROLEUM DEMAND, IMPLYING STRONG MUTUALITY OF INTEREST BETWEEN SAG, US AND FREE WORLD. FAHD INTERJECTED LONG DISCOURSE ON SAUDI DESIRE BE POSITIVE FORCE AND "CENTER OF REASONABLENESS" AMONG ARAB COUNTRIES, BUT SAG MUST BE ABLE MAKE CLEAR ITS VIEWPOINTS IN WAY CONVINCING OTHER ARAB STATES THAT IT HAS ARAB INTERESTS AT HEART. SAG CONTINUES ACTIVE STUDY MEANS HOW BEST UTILIZE GROWING REVENUE AND HOW IT MIGHT CONTINUE INCREASE OIL PRODUCTION TO US AND WESTERN EUROPE. HE HOPED USG AND US COMPANIES BE PREPARED ASSIST IN DEVELOPMENT OF JOINT PROJECTS FOR SAUDI INDUSTRIAL GROWTH. DCM THEN GAVE FAHD ORAL RESUME IN ARABIC OF CENTRAL THOUGHTS
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IN SECRETARY'S MESSAGE. FAHD RESPONDED FAVORABLY AND COMMENTED HISHAM NAZER WOULD BE UNDER STRICT INSTRUCTIONS TAKE CONSTRUCTIVE LINE DURING HIS WASHINGTON TALKS. AMB CONCLUDED BY SAYING WE ANXIOUS MAINTAIN DIALOGUE WITH HIS

HIGHNESS THESE IMPORTANT SUBJECTS. SUCH TALKS COULD BE CARRIED ON MUCH MORE SUCCESSFULLY WITHOUT LIMITING ATMOSPHERE OF RESTRICTION ON OIL PRODUCTION LEVELS. AS USUAL, FAHD EXUDED GOOD WILL AND AMIABLE INTENTIONS, STRESSING GOALS OF COOPERATION AND MUTUAL BENEFIT. UNFORTUNATELY WE CANNOT ASSUME HIS EFFUSIVE AFFIRMATIONS OF COOPERATIVE INTENT ARE DOMINANT ELEMENT PRESENT SAUDI DELIBERATIONS. SECRETARY'S GOOD LETTER AND US PAPER FOR C-20 PROVIDE FAHD WITH AMMUNITION TO TAKE HELPFUL LINE IN SAG DISCUSSIONS, AND WE MUST CONSIDER HOW WE CAN CONTINUE CAPITALIZE ON HIS POSITIVE INSTINCTS. AMB WILL FOLLOW UP NEAR FUTURE WITH YAMANI DETERMINE, IF POSSIBLE, TENOR OF ONGOING DISCUSSIONS IN SUPREME PETROLEUM COUNCIL. END SUMMARY.

1. CALLED WITH DCM AUGUST 25 ON PRINCE FAHD TO PRESENT SECRETARY'S MESSAGE AND PAPER GIVING US STATEMENT ON OUR IDEAS FOR DEALING WITH ARAB FINANCIAL RESERVES DRAWN UP FOR COMMITTEE OF TWENTY. BEGAN BY SAYING THAT WE HAD UNDERSTOOD THERE WAS CONSIDERABLE APPREHENSION AND SOME MISUNDERSTANDING AMONG SOME OIL PRODUCING ARAB GOVTS REGARDING US VIEWS ON MANAGEMENT OF LARGE FINANCIAL RESERVES WHICH THESE GOVTS WERE ACCUMULATING AS THEIR PETROLEUM OUTPUT CONTINUES TO MOUNT. IN EXPLAINING ORIGINS AND PURPOSES OF PAPER STRESSED IT AIMED MAKING CLEAR ONE PARTICULARLY IMPORTANT POINT: OUR CONVICTION FREEDOM OF ACTION OF OIL PRODUCING STATES MUST BE PRESERVED WITH REGARD INVESTMENT OF THEIR ACCUMULATED FUNDS WITHOUT ENCUMBRANCE THROUGH RESTRICTIONS OF ANY NEW MONETARY SYSTEM. THUS, WE SUPPORTED IDEA OF SPECIAL POSITION FOR OIL PRODUCING COUNTRIES IN RECOGNITION OF THEIR SPECIAL NEEDS AND REQUIREMENTS.

2. I NOTED WE WERE AWARE ALSO OF RELATIONSHIP BETWEEN LEVELS OF OIL PRODUCTION AND RATE OF ACCUMULATION OF RESERVES. SECRETARY'S LETTER ADDRESSED THIS ASPECT AND MADE CLEAR OUT STRONG HOPE THA CAREFUL CONSIDERATION WOULD BE GIVEN TO SAUDI ARABIA'S IMPORTANT ROLE IN MEETING RAPIDLY RISING PETROLEUM DEMAND AND TO STRONG MUTUALITY OF INTEREST
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IN THIS RESPECT BETWEEN SAUDI ARABIA, US AND FREE WORLD COUNTRIES.

3. FAHD BROKE IN WITH REFERENCE TO EXCELLENT RELATIONS EXISTING BETWEEN US AND SAUDI ARABIA, AFFIRMING LATTER WAS ANXIOUS TO BE "POSITIVE FORCE" IN WORLD AFFAIRS AND "CENTER OF REASONABLENESS" AMONG ARAB COUNTRIES. PRINCE SAID THAT PERHAPS I HAD NOTICED RECENT STATEMENTS OF HIS MAJESTY REFLECTING SAUDI DESIRE TO AVOID RESTRICTIONS ON PETROLEUM PRODUCTION PROVIDED PROPER POLITICAL CIRCUMSTANCES COULD PREVAIL. KING, FAHD SAID, IS ANXIOUS TO DEFLECT AND BLUNT ENDEAVORS OF LEFTIST ARABS WHO DESIRE TO SEE OIL BECOME DIFFICULT AND CONTENTIOUS ISSUED BETWEEN SAUDI

ARABIA AND ITS FRIENDS IN WEST. SAUDI ARABIA CAN ONLY
SUCCEED, HOWEVER, IF IT CAN MAKE CLEAR ITS VIEW-
POINT IN WAY THAT CONVINCES OTHER ARABS THAT INDEED IT HAS AT
HEART INTERESTS OF ARAB WORLD GENERALLY. PRINCE INDICATED IT
IS HIS OWN STRONG PERSONAL INTENTION DO EVERYTHING POSSIBLE
TO SEE THAT COURSE OF EVENTS MOVE IN MANNER THAT ARAB
PETROLEUM WILL NOT RPT NOT BE CUT OFF FROM US AND WEST.

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FM AMEMBASSY JIDDA

TO SECSTATE WASHDC 4746

INFO AMCONSUL DHAHRAN

S E C R E T SECTION 2 OF 2 JIDDA 3644

EXDIS

4. INDEED, HE SAID, SAG AT PRESENT IS STUDYING WAYS IN
WHICH IT MIGHT CONTINUE INCREASE PRODUCTION TO US AND
WESTERN EUROPE AND IS ALSO STUDYING MEANS SEE HOW BEST
REVENUE SO ENGENDERED CAN BE UTILIZED BENEFICIALLY FOR
SAUDI ARABIA'S DEVELOPMENT. FAHD MENTIONED WITHOUT MUCH
DETAIL EXISTENCE OF "PLAN NOW BEFORE COUNCIL OF MINISTERS."
THIS WOULD ENVISAGE FURTHER CONTACTS WITH FOREIGN
COMPANIES OR GOVTS TO ASSIST IN SAUDI IMPLEMENTATION OF
DEVELOPMENT PLANS, WHOSE GOALS HAD THREE IMPORTANT
ASPECTS: FIRST, TO AUGMENT THE WELL-BEING AND CONTENTMENT
OF SAUDI PEOPLE THROUGH ECONOMIC DEVELOPMENT--ROADS,
ELECTRICITY, BETTER HEALTH FACILITIES, INDUSTRY, ETC.;
SECONDLY, SILENCE THOSE WHO "SPEAK OF US WITH CRITICAL
TONGUES", AND LASTLY, MAKE IT POSSIBLE TO HELP OUR
FOREIGN FRIENDS (OIL CONSUMERS) MEET THEIR NEEDS. HE
HOPED USG AND US COMPANIES WOULD BE PREPARED TO ASSIST
IN DEVELOPMENT OF JOINT PROJECTS WHICH WOULD ENHANCE
SAUDI INDUSTRIAL DEVELOPMENT. ("PLAN" FAHD REFERRED TO
IS PROBABLY GUIDELINES FOR SECOND FIVE-YEAR PLAN NOW
UNDER ACTIVE CONSIDERATION WITHIN GOVT.)

5. I SAID I WAS PLEASED THAT FROM WHAT HIS HIGHNESS HAD
REMARKED TO ME IT APPEARED OUR IDEAS WERE RUNNING VERY
MUCH IN SAME TRACK. DCM THEN GAVE FAHD ORAL RESUME IN
ARABIC OF CENTRAL THOUGHTS CONTAINED IN SECRETARY'S
MESSAGE. FAHD WAS GRATEFUL FOR THSE HELPFUL IDEAS AND
PROMISED STUDY LETTER. (ALMOST CERTAINLY HE WILL SHOW

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IT TO KING.)

6. AS TO HISHAM NAZER'S VISIT TO US, HE WISHED ME UNDERSTAND NAZER WOULD BE INSTRUCTED TAKE CONSTRUCTIVE LINE IN HIS TALKS IN WASHINGTON AND TO SAY NOTHING THAT MIGHT HEIGHTEN AMERICAN CONCERNS BUT RATHER PURSUE SAME LINE HIS HIGHNESS HAD OUTLINED TO ME AS INTENDED ENHANCE OPPORTUNITIES FOR FURTHER COLPERATION.

7. I CONCLUDED DISCUSSION BY SAYING THAT WE WOULD BE LOOKING FOR FURTHER OPPORTUNITIES TO CONTINUE HGIH-LEVEL DISCUSSIONS WITH HIS HIGHNESS AND OTHER SENIOR REPS OF SAG ON SPECIFIC FEATURES OF SAUDI INVESTMENT PLANS, INCLUDING TAX ISSUES. MOST PROGRESS COULD BE MADE IF SUCH TALKS WERE NOT CARRIED ON IN LIMITING ATMOSPHERE OF RESTRICTION ON OIL PRODUCTION LEVELS. FAHD ASSURED ME HE UNDERSTOOD MY POINT AND INDICATED HE WOULD BE HAPPY TO TALK ABOUT THESE MATTERS FURTHER.

8. IN CLOSING I ASKED ABOUT HIS HIGHNESS' REFERENCE TO STATEMENT BY HIS MAJESTY REGARDING RIGHT POLITICAL CIRCUMSTANCES REQUIRED TO AVOID RESTRICTIONS ON PETROLEUM PRODUCTION. COULD FAHD IDENTIFY STATEMENT MORE PRECISELY FOR ME? FAHD RESPONDED THAT HE HAD IN MIND REMARKS MADE BY KING TO WASHINGTON POST REPORTER WHO WAS HERE RECENTLY.

9. COMMENT: FAHD EXUDED GOOD WILL AND AMIABLE INTENTIONS ALONG WITH WARM DESIRE FOR COOPERATION WHICH ARE SO MUCH HIS TRADEMARK. HE GAVE NO HINT THAT ANYTHING UNPALATABLE TO OIL CONSUMING COUNTRIES MAY NOW BE UNDER ACTIVE CONSIDERATION WITHIN COUNCIL OF MINISTERS OR SUPREME PETROLEUM COUNCIL. HE WANTED US MOST EARNESTLY AND SINCERELY, NO DOUBT, TO BELIEVE THAT SAUDI ARABIA'S GOALS WITH REGARD TO OIL AND INVESTMENTS ARE COLLABOR-ATION AND MUTUAL BENEFIT. WHILE WE GAINED LITTLE IN KNOW-LEDGE OF REAL CONTEST THAT MAY BE GOING ON WITHIN GOVT ON LEVELS OF PRODUCTION, EXCELLENT LETTER FROM SECRETARY AND US PAPER PRESENTED TO C-20 CERTAINLY PROVIDE FAHD WITH GROUNDS FOR ENCOURAGING RESTRAINT AND MODERATION WITHIN SAG'S INNER CIECLES.

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10. KNOWING FAHD AS WELL AS WE DO, WE CANNOT, UNFORT-UNATELY, TAKE HIS EFFUSIVE AFFIRMATIONS OF COOPERATIVE INTENT AS BEING DOMINANT GUIDING CONSIDERATION OF PRESENT SAUDI DELIBERATIONS. PRINCE TOUCHED ON POLITICAL ASPECT BY REFERRING TO KING'S QUITE NEGATIVE COMMENTS TO HOAGLAND

AND COOLEY BUT IN CONTEXT THAT THESE COMMENTS WERE ONLY
SIMPLE AFFIRMATION INTENDED TO BLUNT ARGUMENTS OF RADICAL
ARABS AND TO LET WORLD KNOW THERE WAS "MINOR" PROBLEM OF
POLITICAL CIRCUMSTANCES TO BE CONSIDERED. TO HEAR FAHD
TELL IT, LATTER WOULD BE, OF COURSE, SIMPLE MATTER TO
DISPOSE OF.

11. NEVERTHELESS, IT SEEMS TO US HE CLEARLY DESIRES TO
BE AN ALLY AND WE MUST KEEP UNDER CONSTANT REVIEW HOW
WE CAN BEST CAPITALIZE ON HIS POSITIVE INSTINCTS. I
INTEND IN NEXT FEW DAYS HAVE FOLLOW-UP MEETING WITH
YAMANI, LET HIM KNOW WE HAVE GONE TO FAHD WITH STRONG,
POSITIVE PRESENTATION AND OBTAIN FROM HIM SOME FURTHER
NOTION HOW DISCUSSIONS ARE PROGRESSING WITHIN SUPREME
PETROLEUM COUNCIL.
THACHER

SECRET

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